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Page: A-1

Caprio wants return of state's frozen money

The general treasurer insists Rhode Island is not about to run out of cash, and no bills or payrolls are in danger of not being paid.

BY KATHERINE GREGG
JOURNAL STATE HOUSE BUREAU

General Treasurer Frank Caprio says the state is taking steps to try to extract \$62 million in frozen state investments from one of the money-market funds that was closed last month by the Reserve Management Corp., after fleeing investors withdrew billions of dollars.

In a further sign of how the upheaval on Wall Street is affecting Rhode Island, Caprio yesterday

said he asked — and the chairman of the Reserve Fund agreed — to seek U.S. Securities and Exchange Commission permission to transfer to the state the government-backed securities being held in its name, so that the state's money-managers can attempt to sell them on their own.

"The liquidity crisis in the financial markets has temporarily suspended our access to these government-backed investments, but we are taking all necessary steps to ensure a full recovery as soon as possible," Caprio said after briefing the governor's staff and key lawmakers. "I have full faith in the guarantee of the U.S. government and in our ability to

SEE **CAPRIO, A5**

Page 1 of 2

Caprio

Continued from Page A1

receive full value for these funds."

Asked why he believed the state would have a better shot at selling the assets "at no loss to the state," Caprio surmised that buyers might not be "as willing" to pay the Reserve a "fair value for the investments" because of the negative publicity surrounding its situation. Also, "They are trying to sell \$7 billion of assets. We'd be trying to sell \$62 million."

But he insisted the state is not about to run out of cash, and no bills or payrolls are in danger of not being paid. Within the next 30 days, he said the state will attempt to raise money — as it did around this same last year — through the sale of tax anticipation notes, as Massachusetts did earlier this week. How much remains undetermined.

There was no response yesterday from the Reserve or the SEC to questions about Rhode Island's place in the world of Reserve fund investors wondering when they will get access to their cash. The governor's office did not respond to inquiries. And House Finance Chairman Steven Costantino said lawmakers are aware the state is having "cash-flow problems" and are "watching it very closely."

This was the scenario laid out by Caprio and his staff yesterday, as the state readied a prospectus for the unrelated sale of refinanced Convention Center debt that would have required the disclosure to potential investors of the state's efforts to recover the frozen \$62 million:

Rhode Island parked the \$62

million in a \$7-billion government-insured Reserve U.S. Government Fund, with the assurance that it could withdraw it with seven days notice. Holdings included shares of Fannie Mae, the Federal Home Loan Bank and the Federal Farm Credit Bank.

On Sept. 22, however, the SEC issued an order permitting the fund to postpone payment on shares that had been submitted for redemption after one of the member funds (and not the one in which Rhode Island had its money) started trading below the money-fund industry's standard: a dollar a share.

According to the treasurer's office, the SEC order "temporarily placed the redemption timeline in limbo to permit the Reserve Fund to liquidate that fund in an orderly manner as market conditions allow." The SEC has not set a liquidation timeline yet and they are overseeing the liquidation of the fund.

In the interim, Caprio said, he asked the Reserve Management Co. to return the assets so the state's traders can try to market them on their own, a move that would require SEC approval. According to the statement issued by his office: "On Monday, after weeks of negotiation by phone, [Caprio] traveled to New York to speak directly with Reserve Management Co. Founder and Chairman Bruce R. Bent about the state's need to access the \$62 million in Rhode Island money held with the fund."

After consulting with Russell Investments and Brown Brothers Harriman, "Caprio determined that the State and its money managers would be capable of selling, at no loss to the state, the secur-

ities currently held by the Reserve," according to a statement from his office.

"At the request of Caprio and other institutional investors, Bent has agreed to request permission from the SEC to transfer securities, equal in value to the state's investment, directly to the state. The move allows the state to then liquidate those funds using its own trading desk and money managers, allowing immediate access to the cash."

In an interview yesterday, Robert E. Cusack, chief investment officer at Preferred Asset Management LLC, a money management firm in Providence, said there is no indication Rhode Island will lose its money. It's just a waiting game. Rhode Island would likely have to wait just a matter of weeks, until its short-term investment "matures," he said.

Cusack said Caprio's move to visit the fund chairman in New York likely ensured Rhode Island would be "at the front of the line" in getting its money back. "When a state treasurer shows up, that's pretty rare," he said.

As further evidence of the toll the national financial crisis is having here, the treasurer's office acknowledged that the state's pension fund has lost 25 percent of its value since the beginning of the year, dropping from \$8.4 billion to \$6.3 billion. Roughly 42 percent of the state's pension portfolio is invested in domestic equities and they tumbled at roughly the same rate — 38 percent year-to-date — as the S&P 500 index. Other gains mitigated the losses.

— Journal staff writer Steve Peoples contributed to this report.

kgregg@projo.com / (401) 277-7078